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Sugar Semi-annual

Widespread Drought Hits 2018 Sugar Beet Crop

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Report Highlights:

Widespread drought in Northwestern Europe is negatively impacting European Union (EU) sugar production in marketing year (MY) 2018/19, forecast down 7 percent from the year before to 19.2 million MT with little change to beet acreage. The EU sugar imports forecast for MY 2018/19 is unchanged from last year at 1.5 million MT. The decline in production will impact MY 2018/19 sugar exports, down 20 percent from the year before to 3 million MT. Ending stocks in MY 2018/19 are forecast at 1.5 million MT, a notable 30 percent decline from last year.

Executive Summary:

This report includes the final review of the transition period of the EU sugar market from a tightly regulated market under the production quota system that expired on September 30, 2017. As a result, the Production, Supply & Demand tables (PS&D) for MY2018/19 and MY 2017/18 are discussed separately from MY 2016/17, which covers the last year under the production quota system.

MY 2018/19 and MY 2017/18

EU sugar production MY 2018/19 is forecast at 19.25 million MT Raw Sugar Equivalent (RSE), which is 1.4 million MT RSE down from MY 2017/18. Sugar beet acreage in 2018 remained stable from 2017 at 1.7 million hectares (ha), but late drilling and an on-going drought will not allow a repeat of 2017 record sugar yields. Total EU beet sugar production for MY 2018/19, including for industrial purposes, is forecast at 21.7 million MT RSE, 1.3 million MT below the MY2017/18 total.

Sugar imports into the EU for MY 2018/19 are forecast at 1.5 million MT, on par with MY 2017/18 imports. However, lower sugar production in MY 2018/19 will lower the EU sugar exports forecast to 3 million MT, down 20 percent from MY 2017/18.

EU domestic sugar consumption is forecast to remain stable at 18 million MT as decreasing per capita consumption is compensated by an increase in population, largely through immigration. Industrial use of beet sugar is forecast to increase in MY 2018/19 as low global sugar prices make bio-ethanol production from beet sugar more competitive against bio-ethanol from higher value wheat.

MY 2016/17, the final year of the EU sugar quota production system

EU sugar supplies in MY 2016/17 were increased as final imports ended at 2.9 million MT, which is 350,000 MT higher than previously estimated. Domestic consumption in MY 2016/17 was reviewed 50,000 MT higher while remaining sugar supplies were allocated to the ending stocks, which ended at 2.2 million MT.

Commodities:

Sugar, Centrifugal

Production:

Explanatory notes to the reader:

- This report updates the first forecast for the second EU post-quota sugar market;
- It updates the market evolution for European Union (EU) sugar markets as the first Marketing Year (MY) 2017/18 after the abolishment of the 50-year-old EU sugar production quota regime draws to an end;
- The EU sugar market balance numbers show a clear break from the past from MY 2017-18 onwards as the whole EU sugar and sweetener industry adapts to a liberalized market. At the end of MY 2016/17, which was the last year under the quota regime, MS reported almost 1.6 million MT of additional out-of-quota sugar stocks that under the quota system had to be marketed for industrial purposes. This change in allocation led to an artificially low industrial use number in this report;
- All sugar numbers are in raw sugar equivalent (RSE) unless otherwise noted;
- The Production, Supply & Demand tables (PS&D) in this report only pertain to sugar as defined by Harmonized System (HS) code 1701; therefore, it excludes raw beet sugar production destined for fermentation or other industrial purposes. Because EU sugar produced under the quota system was preserved for food use only, the so-called out-of-quota sugar was used only for industrial (non-food) use. From MY 2017/18 onwards, there is no regulated distinction between sugar for food purposes and sugar for non-food purposes. However, the EU Sugar GAIN report will continue to exclude thick juice from sugar beet for bioethanol and fermentation purposes, as thick juice does not meet the HS 1701 definitions;
- The conversion factors and marketing years used in this report:
 - MY = marketing year; for sugar October/September;
 - Raw cane sugar = 1.07 X Refined cane sugar;
 - Raw beet sugar = 1.087 X White (refined) beet sugar;
- Sugar imports for EU inward processing purposes are excluded from this report PS&D tables as these sugar imports are entirely re-exported as processed products. Inward processing is the EU customs program under which the import duties for dairy, sugar, and starch containing commodities for processing and subsequent re-export are waived.
- Euro/U.S. Dollar exchange rate.



Source: ExchangeRate.com

Additional Upfront Note: The EU Sugar Production Quota Regime Ended on September 30, 2017

The 2007 Sugar Reform regulated the EU sugar market, limiting total EU production quota for food purposes to 13.5 million MT of white sugar equivalent, which amounts to 14.7 million MT in raw sugar equivalent (RSE). This EU sugar production quota regime expired at the end of MY2016/17.

As isoglucose, such as High Fructose Corn Syrup (HFCS), was also governed by the production quota system, linking isoglucose for food to the sugar quota at 5 percent, it was not a competitor for sugar for food use. This limitation on isoglucose also ended with the abolition of the sugar quota regime at the end of MY 2016/17.

Despite the removal of all limitations to EU sugar production, EU farmers remain protected against competition from non-preferential raw cane sugar by high tariffs and import quotas. A safeguard on preferential duty-free imports from Least Developed Countries (LDCs) under the Everything-But-Arms (EBA) Agreement, continues to limit potential imports to 3.5 million MT white sugar equivalents. In

recent years, additional country- specific quotas have been agreed as part of EU free trade agreements (FTAs) with Peru, Colombia, Panama and Central America totaling some 260,000 MT. Ukraine was also allocated a 20,000 MT quota, while the new Southern African Development Community [1] (SADC) Economic Partnership Agreement (EPA) from October 2016 is granting South Africa duty-free quotas for 150,000 MT of sugar. In 2016, as part of the EU-Vietnam FTA, Vietnam was awarded a duty-free quota for 20,000MT of sugar. In the spring of 2018, the EU and Mexico agreed to grant a 30,000 MT quota for Mexican sugar imports at a €49/MT duty to be phased in over three years. The implementation of the EU-Vietnam and EU-Mexico agreements is expected during 2019.

[1] <http://ec.europa.eu/trade/policy/countries-and-regions/regions/sadc/>

EU Sugar Production:

EU27 Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Year begin	October 2016		October 2017		October 2018	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1,241	1,241	1,940	2,238	1,990	2,234
Beet Sugar Production	18,042	18,042	20,872	20,625	20,020	19,250
Cane Sugar Production	271	272	278	271	280	275
Total Sugar Production	18,313	18,314	21,150	20,896	20,300	19,525
Raw Imports	1,685	1,920	1,000	1,060	1,000	1,100
Refined Imp.(Raw Val)	914	1022	400	440	400	400
Total Imports	2,599	2,942	1,400	1,500	1,400	1,500
Total Supply	22,153	22,497	24,490	24,634	23,690	23,259
Raw Exports	5	5	5	5	5	5
Refined Exp.(Raw Val)	1,508	1,504	3,695	3,595	2,995	2,995
Total Exports	1,513	1,509	3,700	3,600	3,000	3,000
Human Dom. Consumption	18,700	18,750	18,800	18,800	18,800	18,800
Total Use	18,700	18,750	18,800	18,800	18,800	18,800
Ending Stocks	1,940	2,238	1,990	2,234	1,890	1,459
Total Distribution	22,153	22,497	24,490	24,634	23,690	23,259

This report is the final update on the transition period of the EU sugar market from a tightly regulated market under the production quota system that expired on September 30, 2017. Because the EU sugar

market experienced a new start post the quota regime, this report will discuss MY 2017/18 and MY 2018/19 separately from the last sugar quota era year 2016/17.

Updated production forecast for MY 2018/19 and review for MY 2017/18

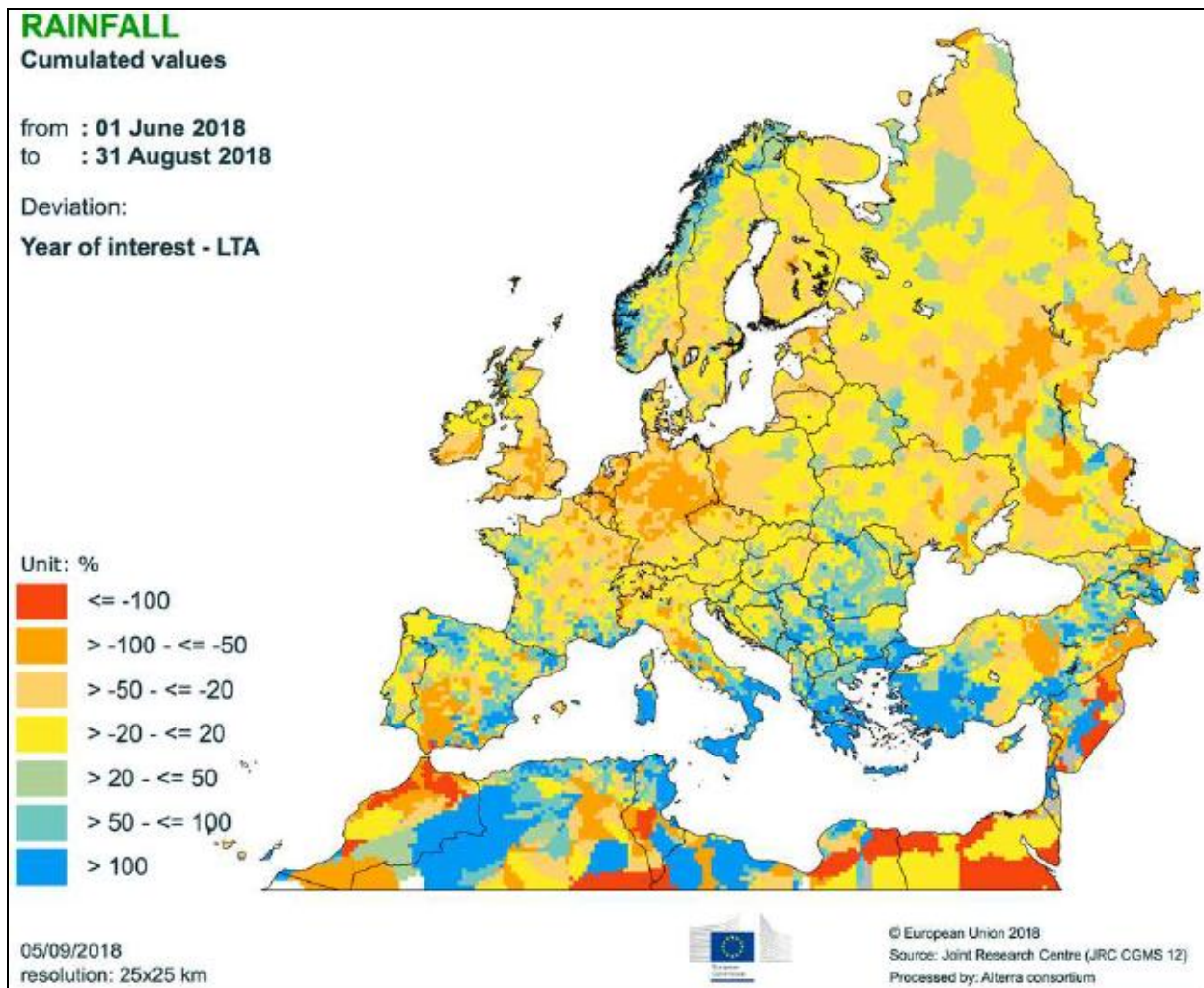
EU sugar beet production	Area, thousands of Hectares			Sugar beet yield in MT per Hectare			Sugar content in percentage		
	16/17	17/18	18/19	16/17	17/18	18/19	16/17 7	17/18 8	18/19 9
Austria	43.5	42.8	38.9	80.0	68.0	68.0	17.65	17.20	17.00
Belgium	56.4	64.7	63.8	72.5	90.0	80.0	18.08	18.00	18.00
Denmark	33.1	34.4	34.4	51.3	59.7	55.0	18.00	18.00	18.00
Finland	11.6	11.8	10.2	37.3	36.6	36.0	16.50	16.50	16.50
France	405.2	486.0	484.0	84.5	95.1	80.0	18.00	18.00	18.30
Germany	314.0	407.0	413.0	75.0	84.0	77.0	18.09	17.80	17.70
Greece	5.4	6.5	5.0	57.9	64.0	59.0	13.50	13.50	13.50
Italy	32.4	38.0	35.2	66.0	64.6	64.6	16.00	15.30	15.60
Netherlands	70.7	85.4	85.8	77.8	93.3	85.0	17.00	16.65	16.65
Portugal	0.4	0.1	0.0	48.0	48.0	48.0	15.51	15.51	15.51
Spain	33.0	36.7	35.6	100.4	96.9	97.0	17.26	17.55	17.22
Sweden	30.6	31.1	30.7	65.0	66.5	65.0	17.50	17.50	17.50
U.K.	86.0	111.0	114.0	59.0	70.0	48.2	17.30	17.82	17.45
Czech R.	60.9	66.3	66.3	71.2	73.9	73.0	18.20	17.50	18.00
Hungary	16.0	15.9	15.9	70.0	67.7	63.5	16.00	16.50	16.50
Lithuania	14.7	16.8	16.8	63.6	60.0	64.0	17.16	16.00	16.60
Poland	203.1	230.8	235.0	66.5	68.1	68.0	17.32	16.49	17.00
Slovak R.	21.5	22.2	22.1	70.2	55.0	60.2	16.36	16.38	16.50
Romania	24.9	28.1	24.0	40.7	41.8	42.0	16.50	16.50	16.50
Croatia	16.0	20.0	21.0	73.0	65.0	62.0	16.50	16.00	16.00
Total EU-15	1122.3	1355.5	1350.6						
Total NMS	357.1	400.1	401.1						
Total EU-28	1479.4	1755.6	1751.7						

EU-15: pre-2004 EU MS; NMS: 13 New Member States that acceded since 2004.

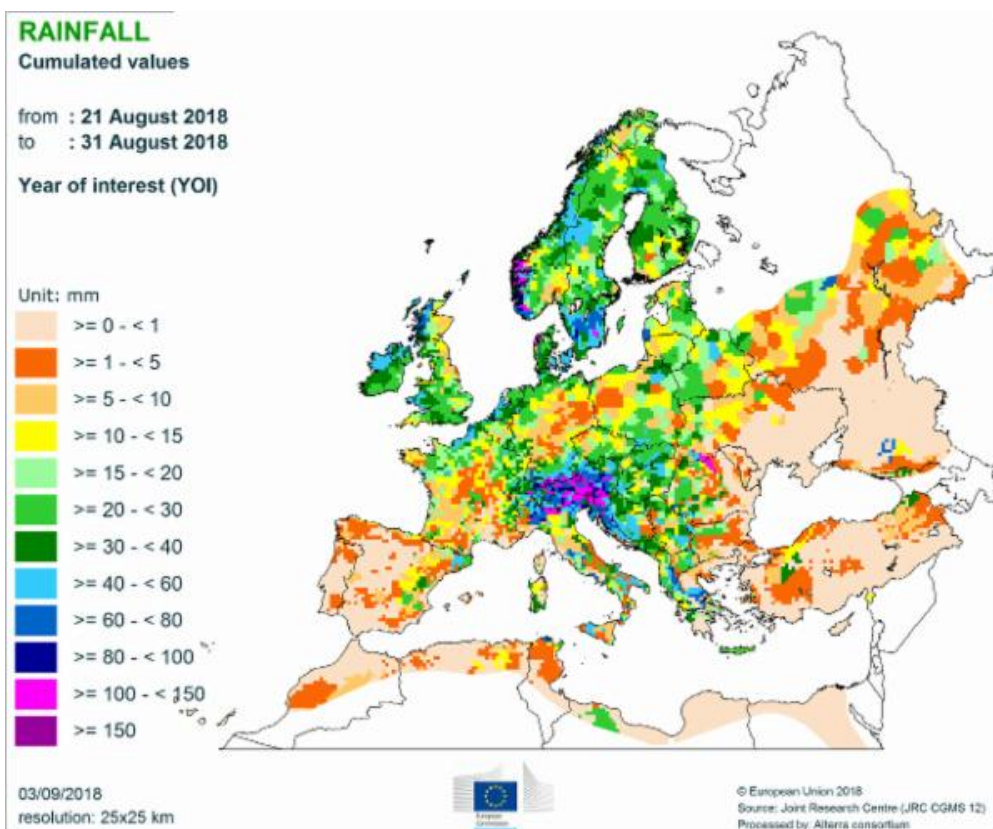
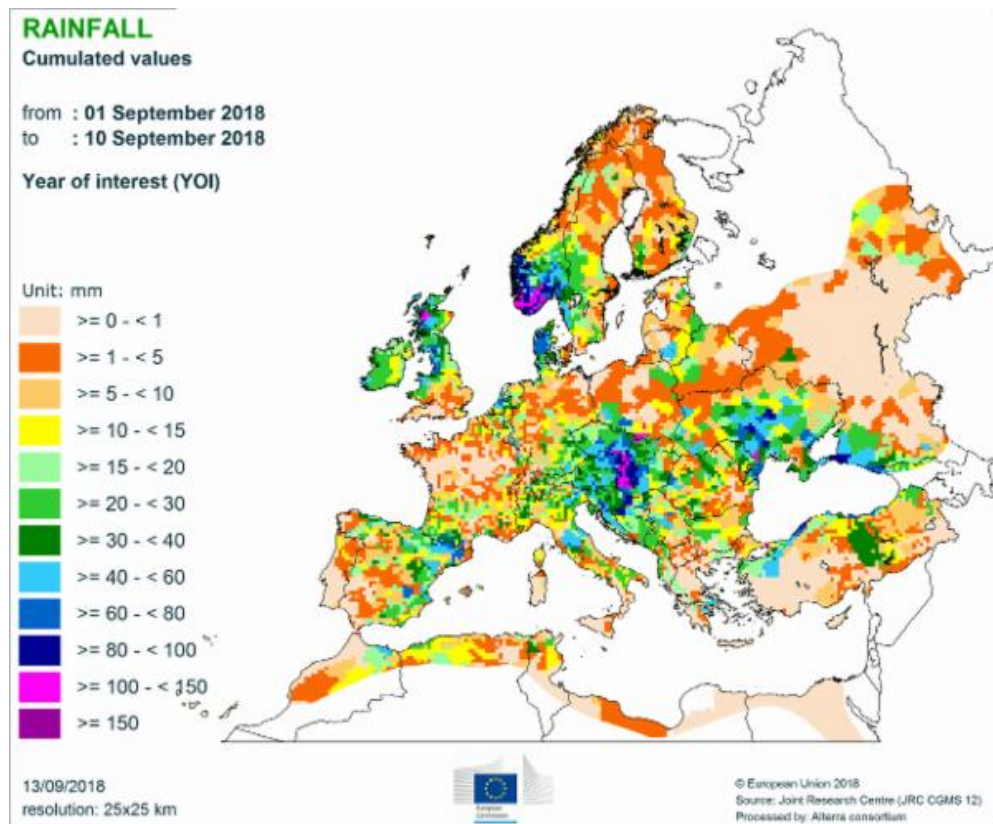
Source: FAS/USEU based on data from FAS offices in EU MS.

EU beet acreage for MY 2018/19 is forecast stable from MY 2017/18 at 1.7 million ha. MY 2018/19 sugar production in the EU is now forecast at 19.25 million MT RSE, which is 1.4 million MT RSE down from MY 2017/18. In most of Northwestern Europe sugar beet were drilled a few weeks later than in 2017 because of an extended wet spring. This late start of the 2018 sugar beet crop was followed by favorable weather in May, but a drought, which lasted from June until the end of August 2018, brought beet growth to a halt. Pre-harvest sampling in all major beet growing countries showed a

decrease in sugar yield per ha in 2018 ranging between 15 and 25 percent compared to 2017. Especially beetroot weight was lagging, while sugar content reached record high levels. This lower beet yield induced sugar processors to delay the start of the beet slicing campaign by one to three weeks. As beet growth locally restarted with the arrival of sparse September rains, this beet harvesting delay will partly mitigate the beet loss from the drought. However, as large parts of Northwestern Europe remain dry, there is considerable downward risk for sugar yield, especially in Germany and Poland. At the same time, beet-growing countries in the Mediterranean area received above average rain during the beet-growing season, which will allow for higher beet yields.



Source: European Joint Research Center MARS Explorer



Source: European Joint Research Center MARS Explorer

Total Sugar Beet Production Including Additional Production for Non-food Use

EU Beet Sugar Production (raw value)				
(1,000 MT)	2015/16	2016/17	2017/18	2018/19
EU Sugar Production	14,283	18,042	20,625	19,250
Industrial Use	2,176	391	2,318	2,424
Total EU Beet Sugar Production	16,459	18,433	22,943	21,674

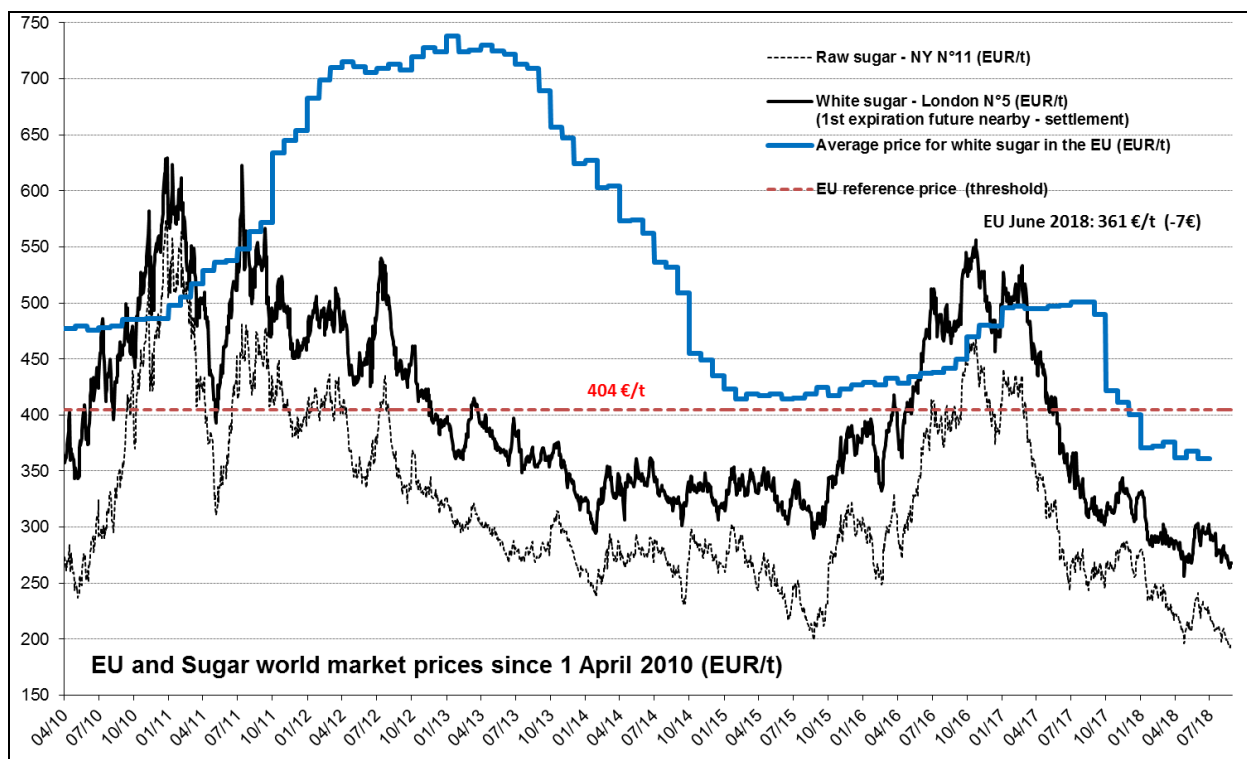
Source: FAS/USEU calculation based FAS EU contributions.

Total EU beet sugar production for MY 2018/19, including for non-sugar industrial uses like bio-ethanol or on-farm biogas production, is now forecast at 21.7 million MT RSE, down 1.3 million MT from MY 2017/18. EU bio-ethanol production from beet is forecast slightly up in MY 2018/19 as increased wheat prices offer bio-ethanol production from sugar beet a competitive advantage. More beet may also be fed to on-farm biogas digesters to substitute for corn that may be preferentially used to supplement drought-stricken fodder production. The artificially low MY 2016/17 industrial use number is the result of the re-allocation of unreported stocks for industrial use at the end of the EU quota regime in September 2017.

Consumption:

EU sugar consumption in MY 2018/19 is forecast to remain stable compared to MY 2017/18. Abundant and low-priced EU sugar supplies boost the competitiveness of EU sugar-using food processors such as the chocolate, confectionary and related industries. Small EU food processors, who in past years under the quota system limitations had difficulties finding reasonably priced sugar supplies, now have plenty of supplies to source from. New FTAs that the EU recently concluded, like the Comprehensive Economic and Trade Agreement ([CETA](http://ec.europa.eu/trade/policy/in-focus/ceta/)) [1] with Canada, help this trend. The increase in exports of these food categories more than offsets decreasing EU domestic sugar consumption, which results from aging demographics and changing consumer preferences for less sugar containing food items.

[1] <http://ec.europa.eu/trade/policy/in-focus/ceta/>



Average price for white sugar within the Community

Ex-work prices for homogeneous granulated crystal, standard quality, in bulk or big bags

Region 1: AT – CZ – DK – FI – HU – LT – PL – SE – SK
 Region 2: BE – DE – FR – UK – NL
 Region 3: BG – ES – GR – HR – IT – PT – RO

in €/t	EU		Region 1	Region 2	Region 3
	average (1)	std dev (2)	average (1)	average (1)	average (1)
October 2017	422	49	423	417	447
November 2017	411	44	407	405	455
December 2017	400	44	398	393	452
January 2018	371	29	376	365	407
February 2018	372	33	371	367	408
March 2018	376	27	371	374	399
April 2018	362	31	366	357	386
May 2018	368	30	369	365	383
June 2018	361	30	362	359	375

Source: European Commission

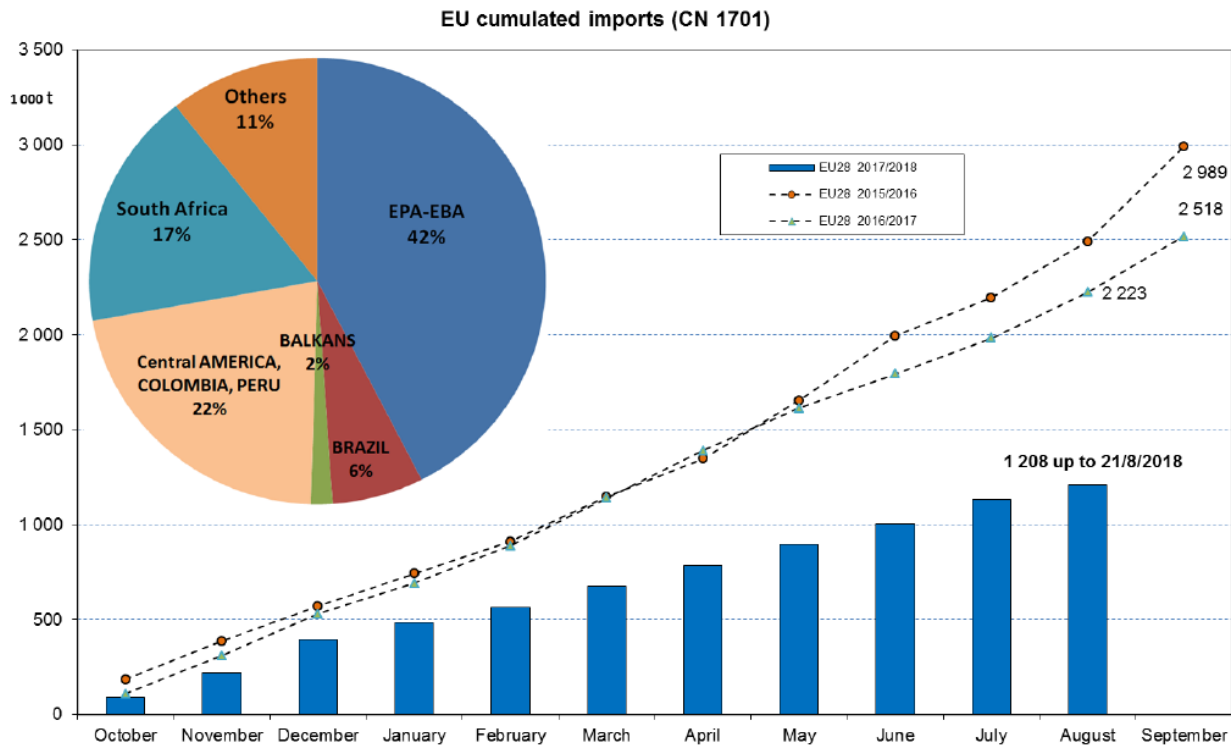
The consolidation of EU sugar production in Northwestern Europe induces differences in sugar prices between MS in the core sugar processing area and the MS in EU periphery, which were limited under the quota system and mainly reflected logistical costs. For better transparency, the Commission has started reporting EU domestic sugar sales prices in three geographical zones (see below table). While this price differential offers some relief to sugar refiners who tend to be located in peripheral MS, it is too small to allow refiners to import sugar under the EU WTO quota and pay the €98/MT within-quota duty.

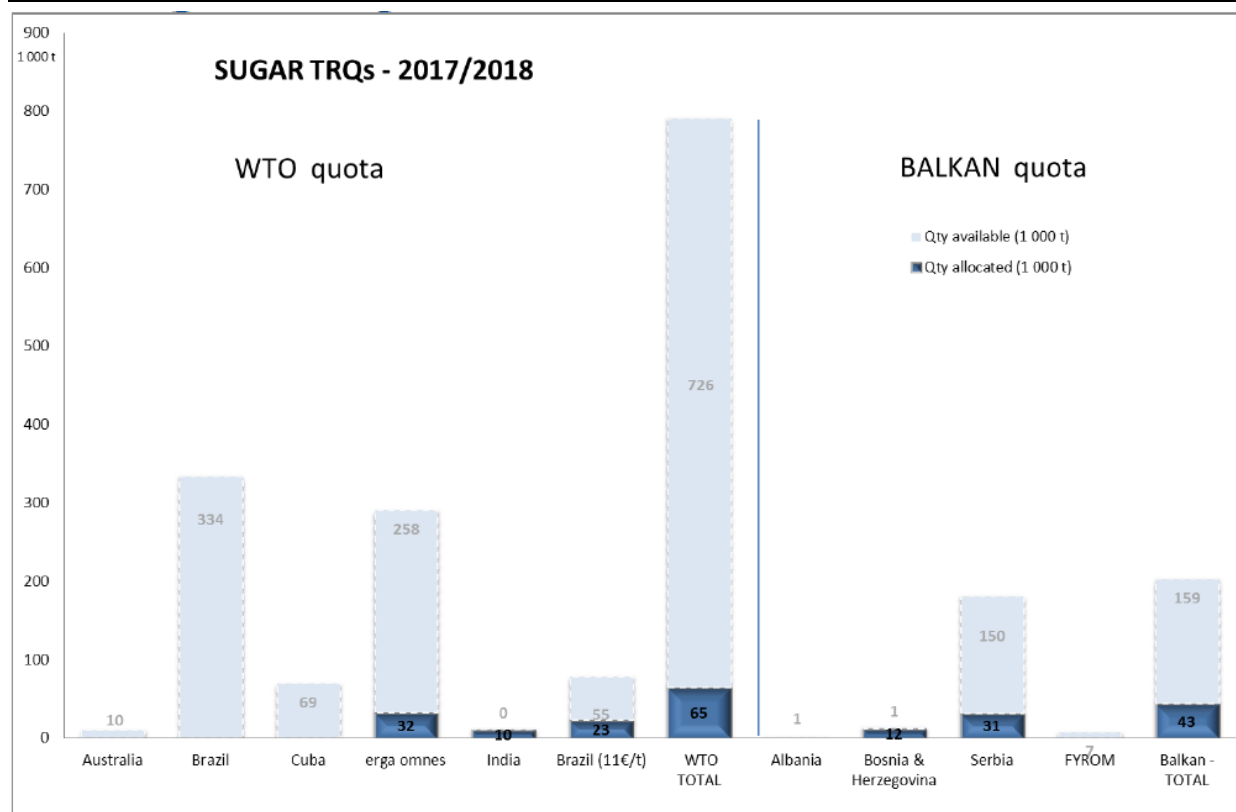
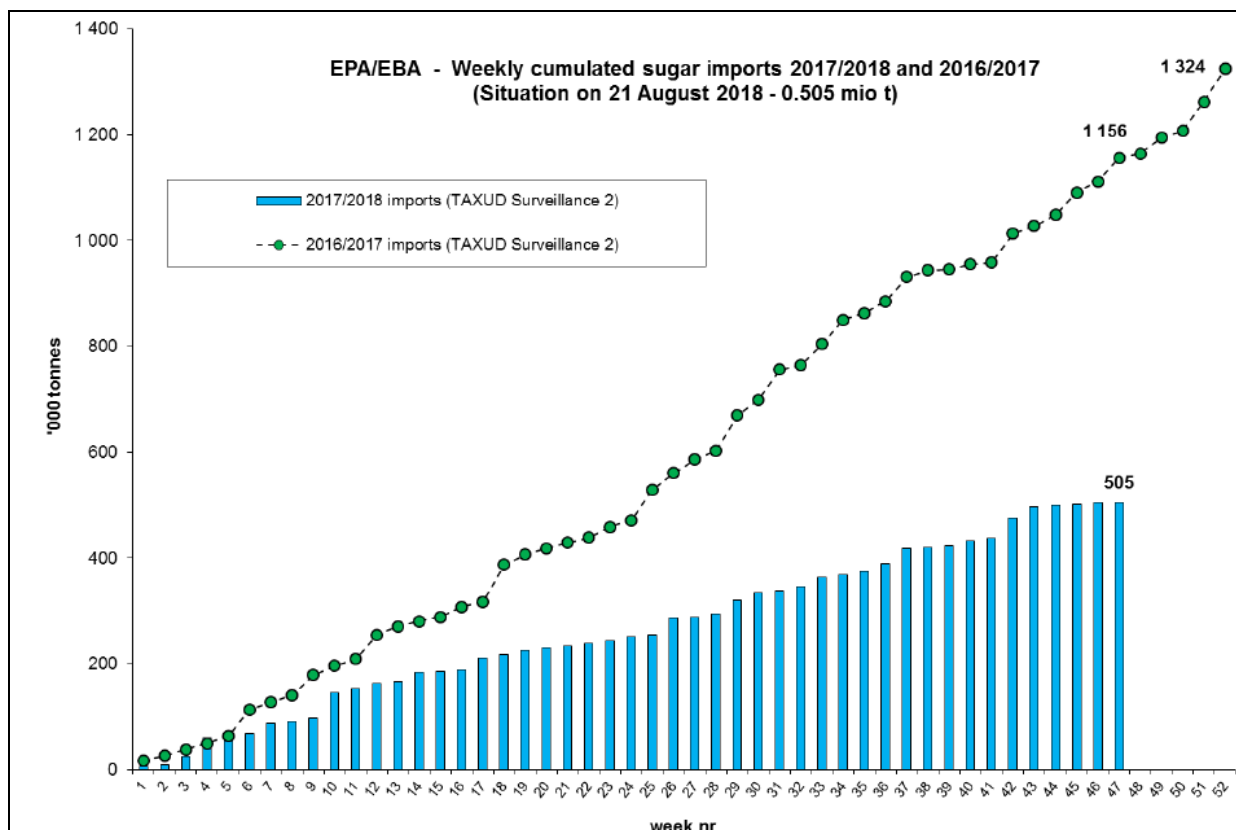
Trade:

Update on EU Sugar Trade in the Post-Quota Era

Imports

EU sugar exports in MY 2018/19 are forecast to remain at the MY 2017/18 level of 1.5 million MT on the assumption that world sugar prices will remain depressed in light of continued oversupply. This is a small increase on the previous forecast of 1.4 million MT. The majority of these imports are from countries with preferential zero-duty access under EBA and FTA quotas, while the EU’s WTO quotas carrying a €98/MT duty go largely unused.

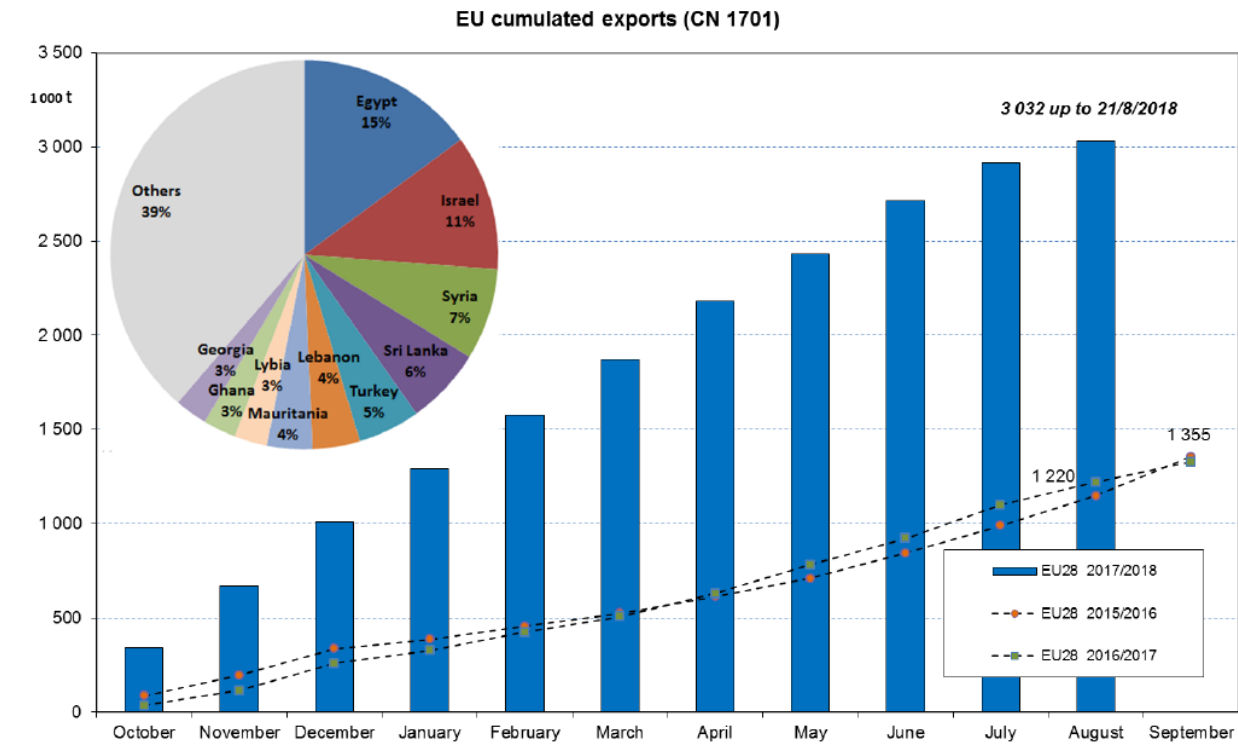




Source: European Commission

Exports

EU sugar exports in MY 2018/19 are forecast at 3 million MT, down 0.6 million MT from MY 2017/18 because of the decrease in production. Main export destinations are Middle Eastern and North African countries.



Source: European Commission

Stocks:

EU sugar stocks at the end of MY 2018/19 are forecast to decrease from their level in MY 2017/18 because of the decrease in production.

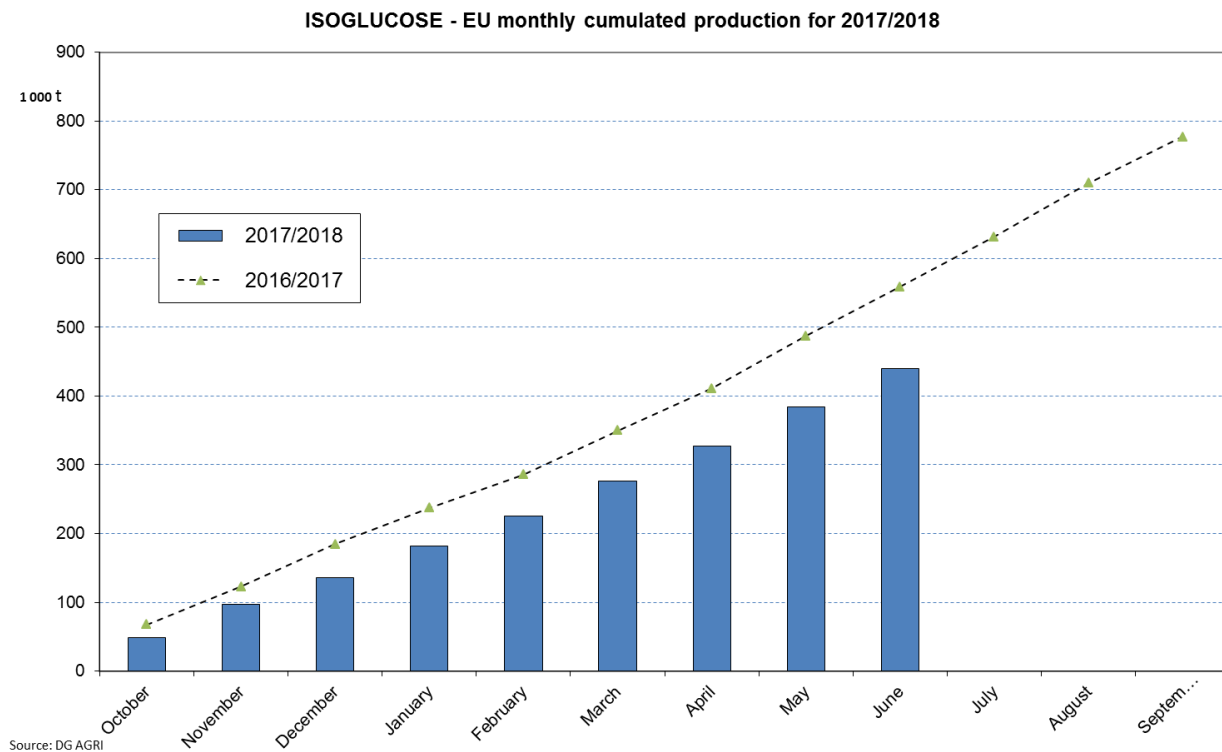
Update on the Last Quota Year MY 2016/17

EU sugar supplies for MY 2016/17 ended almost 350.000 MT higher than previously reported because of higher than anticipated imports. Exports and domestic consumption saw minor updates with the majority of the additional supplies lifting the MY 2016/17 ending stocks.

Isoglucose

Production of isoglucose for MY 2018/19 in the EU is forecast to increase compared to MY 2017/18 to around 850,000 MT as a new production plant with a yearly capacity of 100,000 MT of isoglucose comes online in Hungary. However, because isoglucose is in direct competition with sugar, low global sugar prices are hampering competitiveness of isoglucose in the EU sweetener market. It is expected that isoglucose production will decrease in MS like Belgium and Germany where production is wheat

based, given increasing wheat prices. If global corn prices were to remain more stable, isoglucose production from corn may be less impacted by loss of competitiveness. Current EU sweetener market conditions are in no way conducive for EU food industries to switch away from sugar for isoglucose.



Source: European Commission

Policy:

EU Continues Concluding Bilateral Trade Agreements

In January 2016, the EU concluded an FTA with [Vietnam](#) [1], in which Vietnam secured a 20,000 MT duty-free TRQ for sugar. However, this EU-Vietnam FTA is still being finalized and is not expected to be implemented before 2019.

In April 2018, the EU and [Mexico](#) [2] concluded an upgrade to their existing FTA from 2000, offering Mexico a new 30,000 MT TRQ for sugar with a 3-year phase-in and a within-quota duty of €49/MT. This agreement also needs further finalization and will not be implemented before 2019.

The EU continues negotiations with [Mercosur](#) [3] countries (Argentina, Brazil Paraguay and Uruguay) on an association agreement, agricultural market access on the EU side and cars on the Mercosur side remain difficult outstanding issues. For sugar, negotiation documents include no numbers, but the EU is understood to have made an offer that Mercosur turned down. EU farmers and processors maintain pressure on the Commission, as they fear that a large Mercosur quota will undermine domestic production.

Discussions for the Next Common Agricultural Policy (CAP) After 2020 Intensifying

On June 1, 2018, Commissioner for Agriculture Hogan presented Commission [proposals for the next CAP](#). [4] The proposals center around nine objectives:

- To ensure a fair income to farmers;
- To increase competitiveness;
- To rebalance the power in the food chain;
- Climate change action;
- Environmental care;
- To preserve landscapes and biodiversity;
- To support generational renewal;
- Vibrant rural areas;
- To protect food and health quality.

The Commission foresees a decrease in funding for the new CAP of 5 percent, with an average decrease in direct payments of some 15 percent. The Commission sets high ambitions on environmental and climate action through the rural development or second pillar and intends to increase subsidiarity towards MS.

However, these proposals are depending on the EU's next Financial Framework, which has yet to be set and which is heavily impacted by the UK decision to leave the EU (BREXIT). With European elections for a new European Parliament (EP) set for May 2019 and the installation of a new Commission in November of 2019, some institutional experts already anticipate that the new CAP negotiations will not be concluded in time. This would trigger an extension of the current CAP before the new Commission and EP are able to implement the new CAP.

[1] <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>

[2] <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1833>

[3] <http://ec.europa.eu/trade/policy/in-focus/eu-mercosur-association-agreement/>

[4] https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en

Related reports from FAS Post in the European Union:

Country	Title	Date
Netherlands	The Diverse Effects of the Drought	09/24/2018
EU28	Post-Quota EU Back to Top 3 Sugar Export Position	04/24/2018
EU28	EU First Post-Quota Sugar Production Up to Pre-2007 Reform Level	10/05/2017

The GAIN Reports can be downloaded from the following FAS website:

<http://gain.fas.usda.gov/Pages/Default.aspx>

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1241	1241	1940	2238	1990	2234
Beet Sugar Production	18042	18042	20872	20625	20020	19250
Cane Sugar Production	271	272	278	271	280	275
Total Sugar Production	18313	18314	21150	20896	20300	19525
Raw Imports	1685	1920	1000	1060	1000	1100
Refined Imp.(Raw Val)	914	1022	400	440	400	400
Total Imports	2599	2942	1400	1500	1400	1500
Total Supply	22153	22497	24490	24634	23690	23259
Raw Exports	5	5	5	5	5	5
Refined Exp.(Raw Val)	1508	1504	3695	3595	2995	2995
Total Exports	1513	1509	3700	3600	3000	3000
Human Dom. Consumption	18700	18750	18800	18800	18800	18800
Other Disappearance	0	0	0	0	0	0
Total Use	18700	18750	18800	18800	18800	18800
Ending Stocks	1940	2238	1990	2234	1890	1459
Total Distribution	22153	22497	24490	24634	23690	23259
(1000 MT)						